



## Final Budget Medium Term Revenue and Expenditure Forecasts

MFMA Section 16 Report

2017/2018

Govan Mbeki Local Municipality

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## **1. OVERVIEW**

### **1.1 Purpose**

The purpose of the report is to table the final 2017/18 Medium-term Revenue and Expenditure Framework (MTREF) before Council in terms of Section 16(2) of the Local Government: Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003) prior to the community consultation process.

### **1.2 Background**

Section 16(1) of the Municipal Finance Management Act (MFMA) stipulates that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Section 16(2) stipulates that in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Section 22 of the MFMA also stipulates that immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents in terms of Section 17 and invite the local community to submit representations in connection with the budget; and submit the annual budget to the National Treasury and the relevant provincial treasury in printed and electronic formats.

Section 23(2) of the MFMA stipulates further that “after considering all budget submissions, the Council must give the Executive Mayor an opportunity –

- a) To respond to the submissions; and
- b) If necessary, to revise the budget and table amendments for consideration by the council”.

The tabling of the Final Budget and IDP will be followed by public consultation meetings with various stakeholders.

The 2017/18 MTREF will be considered for approval by Council in 31 May 2017 after taking into account the outcome of public consultation.

### **1.3 Long Term Financial Sustainability (LTFS)**

The purpose of the long-term financial strategy is to ensure that the municipality is financially sustainable and able to respond to the Municipal Growth and Development Strategy, policies, priorities and infrastructure needs.

The objectives of the LTFS are:

- Prudent and sound medium-term to long-term financial framework.
- Resilience and able to absorb future shocks.
- Ensure sustainability of services.
- Investment in infrastructure.
- Adequate maintenance of infrastructure.
- Identify strategies that will ensure long-term financial sustainability:
- Operational efficiency initiatives,
- Sustainable and alternative revenue streams.
- Respond to the long-term strategy of the municipality.
- Improve the municipality’s credit rating.

Owing to the limited revenue base (municipal rates, user charges and grants/subsidies) the Municipality has to be proactive in the minimization of costs and the maximisation of efficiencies in order to respond to increased service delivery requirements.

The strategies and measures already implemented to ensure sustainability are:

- The Budget Policy;
- The Revenue Enhancement Strategy;
- Budget Principles and guidelines; and
- The Cash-Flow Management Intervention Initiatives.

#### Long-term Financial Model (LTFM)

The long-term Financial Model essentially informs the compilation of the MTREF with the emphasis on affordability and long-term sustainability. Although the LTFM is predominantly a financial planning tool to ensure long-term financial sustainability for the organisation, the financial planning process and LTFM run parallel to ensure the strategies and direction of the Municipality are at all times informed by best practice. The municipality is in a process of reviewing its plans and developing a long-term financial strategy.

### 1.4 2017/2018 MTREF Policy statements and guidelines

The IDP is the primary point of reference for preparation of the MTREF. Accordingly the budget addresses the following strategic objectives:

- Provide basic services, roads and storm water.
- Economic growth and development and job creation.
- Sustainable communities with clean, healthy and safe environments and integrated social services.
- Participatory democracy and Batho Pele.
- Promote sound governance.
- Ensure financial sustainability.
- Organisational development and transformation.

The 2017/18 MTREF reflects the reality of the current budgetary pressures. The following budget guidelines directly informed the compilation of the budget;

- Scale down on baseline allocation as indicated by National Government.
- Approve a balanced budget and create cash surplus over the Medium-term.
- The budget must be funded in accordance with the funding compliance procedure set out in MFMA Circular 42 and the Funding Compliance Guideline.
- Reprioritise competing needs within the allocations.
- Ensure the timely delivery of the capital programmes (eliminate under spending of capital budget).
- Tariff and Property Rate increases should take into account the need to address infrastructure backlogs and other strategies and affordability of services.
- The percentage salary increase according Main Collective Agreement signed in 2015 are as follows:
  - 2016/17 Financial Year – 6.9%
  - 2017/18 Financial Year – CPI + 1%
  - 2018/19 Financial Year - CPI + 1%
- Special attention needs to be given to efficiency gains and the principle of value for money.
- Filling of vacancies should be reviewed within the available budget.

## 2. EXECUTIVE SUMMARY

### 2.1 Executive Summary

The preparation of the 2017/2018 Budget and Medium Term Revenue and Expenditure Framework (MTREF) is based on the guidelines contained in the MFMA Circular No.86 issued by National Treasury.

The other fundamental principles underlying the preparation of this final budget is the application of sound Financial Management to ensure Financial Viability, and that municipal services provide sustainable, economically and equitable to all communities.

*The main challenges experienced during compilation of the budget 2017 MTREF can be summarized as follows:*

- Significant increase in operating expenditure with limited increase in operating revenue resulting in huge deficits.
- Cash flow constraints
- The increased cost of bulk purchases (due to increase from Rand Water and Eskom).
- The need to re-prioritise expenditure within the existing resource envelope given the cash flow realities and declining cash position.
- Unavailability of own-funding for capital budget; and
- Inability to raise capital/borrowing.

*The following principles and guidelines will directly inform the budget 2017/2018 MTREF:*

- The budget as well as the performance of 2016/2017 budget was used as baseline and was appropriate as upper limits.
- CPI guidelines from National Treasury except where specific sector increases are prescribed.
- Ensuring that drinking water meets the required quality standards at all times
- Identification of inefficiencies and elimination of no-priority spending
- Securing health of the assets by increasing the spending on repairs and maintenance
- Developing strategies in reducing water and electricity losses
- Developing tariffs that are cost reflective
- Maintaining a long financially sustainable environment
- Protect the poor from the worst impacts of the economic downturn at all times
- Job creation and poverty reduction

For the municipality to be able to deliver efficient and effective public services within the existing fiscal purse, tough decisions will have to be taken on the expenditure side. Priority ought to be given to the following areas:

- A performance culture where all the people are held accountable for their actions, accompanied by clear, measurable outcomes related to key developmental priorities.
- Limit outsourcing of work
- Procurement reforms
- Limit wastage and inefficient systems

The budget has been prepared with a vision of sustaining the financial capability of the municipality in the long term. A special effort was taken to improve the credibility of the budget. The tariffs have been set in line with tariff policy and the following factors were considered:

- The current collection rate
- The affordability of the community
- The social package
- The direct cost drivers

The tariffs for service charges have been increased as follows:

|                    |       |
|--------------------|-------|
| - Water            | 10.2% |
| - Electricity      | 1.88% |
| - Rates            | 6.4%  |
| - Waste management |       |
| o Refuse removal   | 6.4%  |
| - Sewer            | 10.2% |
| - Miscellaneous    | 6.4%  |

The social package is proposed as follows:

| DESCRIPTION      | 2015/2016     | 2016/2017     | 2017/2018     |
|------------------|---------------|---------------|---------------|
| Free Electricity | 43.99         | 44.77         | 45.62         |
| Free Water       | 149.73        | 174.53        | 192.33        |
| Equitable Share  | 200.00        | 213.20        | 226.84        |
| <b>TOTAL</b>     | <b>393.72</b> | <b>432.72</b> | <b>471.35</b> |

The municipality is implementing the inclining block tariffs on electricity and water. The IBT for the electricity is in-line with the NERSA guidelines. The water tariffs are also designed using the inclining block model to promote conservative approach to the domestic consumers.

The municipality will still ensure that the poor are protected through the indigent support scheme as per the indigent policy and debt collection strategy. The threshold for increasing free basic services for a household will be reviewed. The increase on the package indicates the municipality's commitment to protect the poor and also to ensure that those who cannot afford to pay are not burden with the unpaid accounts.

The council is committed in creating employment and reducing poverty as part of National Initiative, through meaningful local economic developmental initiatives and labour intensive projects. Furthermore, the municipality will on the continuous basis engage with the service providers to ensure that labour intensive approaches are utilized. The municipality will also ensure that it implements the intern programs to provide the young people with on the job training.

A conservative approach in spending will be adopted to ensure financial sustainability. As a municipality we should also all pay serious attention to managing revenue and any cash streams effectively through revenue management processes and procedures.

## 2.2 Consolidated overview

The budget has been prepared in terms of guidelines as contained in Circular 86 of the MFMA. The contents and format of the budget are in line with the requirements of the Municipal Budget and Reporting Regulations and any applicable legislation.

The 2017/2018 final budget comprises of R1.6 billion for operating expenditure and R104 million for capital investment programs. The total operating income budget is R1.7 billion resulting in an operating Surplus of R 104 million.

Municipal revenues and cash flows are expected to remain under pressure as we still continue to have low income revenue growth with a continued increase in expenditure.

**Table 1: Consolidated overview of the 2017/2018 Final Budget**

| Description                      | Audited Outcome<br>2015/2016 | Original Budget<br>2016/2017 | Adjusted Budget<br>2016/2017 | Budget<br>2017/2018 | Budget<br>2018/2019 | Budget<br>2019/2020 |
|----------------------------------|------------------------------|------------------------------|------------------------------|---------------------|---------------------|---------------------|
|                                  | R'000                        | R'000                        | R'000                        | R'000               | R'000               | R'000               |
| Total Operating Revenue          | 1 516 704                    | 1 732 012                    | 1 743 776                    | 1,687,472           | 1,817,683           | 1,945,533           |
| Total Operating Expenditure      | 1 794 795                    | 1 708 279                    | 1 734 326                    | 1 655 807           | 1 784 039           | 1 903 029           |
| Surplus /( Deficit) for the year | (278 091)                    | 23 733                       | 9 450                        | 31,665              | 33,644              | 42,504              |
| Total Capital Expenditure        | 121 743                      | 100 894                      | 87 395                       | 104 396             | 96 081              | 91 650              |

### Operating budget

The operating budget deals with day to day operations of the municipality to ensure that service delivery is sustained.

The final operating budget has increased to R1.6 billion compared to the current adjusted budget of R1, 7 billion.

The trend is that the operating expenditure has been increasing over the years driven by:

- salary increments
- the need to repair infrastructure
- the need to adequately budget for debt impairment and depreciation,
- Inflation

### Capital budget

An amount of R104 million has been allocated for the capital investment program for 2017/2018 financial year. This is an increase from the R101 million budget for 2016/17. The main reason for this increase is due to the provision to install of 20 000 Vodacom Smart Meters.

### 3. DETAILED OVERVIEW OF BUDGET

#### 3.1 Financial performance (revenue and expenditure) mSCOA version 6.1

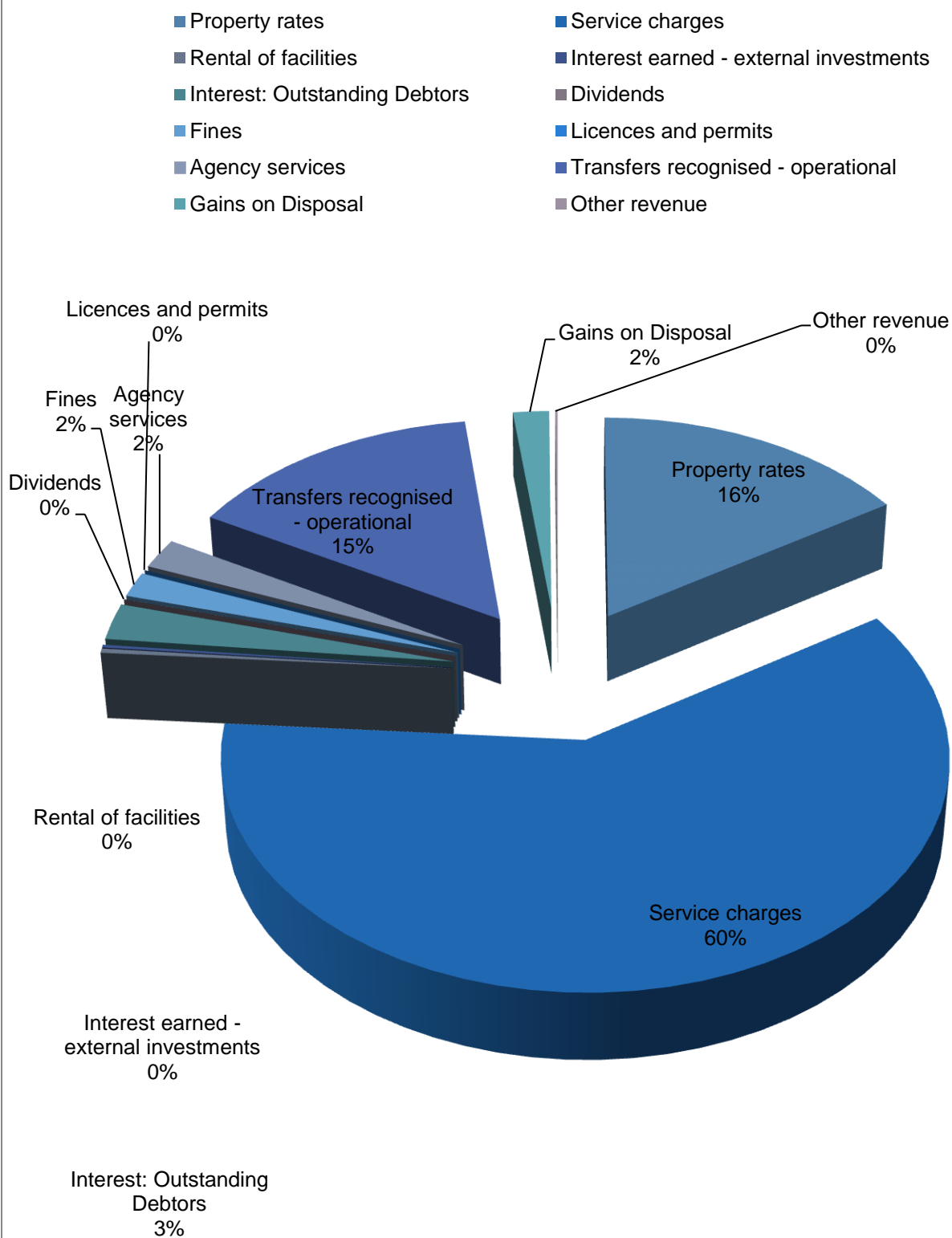
| Description   | 2017/18 Medium Term Revenue & Expenditure Framework |                           |                           |
|---|---|---------------------------|---------------------------|
|   | Budget Year<br>2017/18                              | Budget Year<br>+1 2018/19 | Budget Year<br>+2 2019/20 |
| <b>R thousand</b>   |   |                           |                           |
| <b><u>Revenue By Source</u></b>   |   |                           |                           |
| Property rates  | 266,066   | 283,094                   | 301,212                   |
| Service charges - electricity revenue   | 463,901   | 493,591                   | 525,180                   |
| Service charges - water revenue   | 341,643   | 363,509                   | 386,773                   |
| Service charges - sanitation revenue  | 98,584  | 104,893                   | 111,606                   |
| Service charges - refuse revenue  | 112,885   | 120,110                   | 127,797                   |
| Rental of facilities and equipment  | 5,181   | 5,513                     | 5,866                     |
| Interest earned - external investments  | 3,403   | 3,621                     | 3,853                     |
| Dividends received  | 55  | 59                        | 62                        |
| Fines, penalties and forfeits   | 30,004  | 31,924                    | 33,968                    |
| Agency fees   | 36,027  | 38,332                    | 40,785                    |
| Transfers and subsidies   | 247,125   | 285,154                   | 314,922                   |
| Other revenue   | 52,598  | 55,964                    | 59,546                    |
| Gains on disposal of PPE  | 30,000  | 31,920                    | 33,963                    |
| <b>Total Revenue (excluding capital transfers and contributions)</b>                          | <b>1,687,472</b>                                    | <b>1,817,683</b>          | <b>1,945,533</b>          |
| <b><u>Expenditure By Type</u></b>   |   |                           |                           |
| Employee related costs  | 478,326   | 513,719                   | 551,731                   |
| Remuneration of councillors   | 22,616  | 24,064                    | 25,604                    |
| Debt impairment   | 85,871  | 91,367                    | 97,214                    |
| Depreciation & asset impairment   | 162,165   | 172,544                   | 183,586                   |
| Finance charges   | 3,430   | 3,649                     | 3,883                     |
| Bulk purchases  | 670,000   | 712,880                   | 758,504                   |
| Contracted services   | 44,118  | 46,941                    | 49,945                    |
| Transfers and subsidies   | 39,610  | 63,425                    | 67,484                    |
| Other expenditure   | 149,671   | 155,451                   | 165,077                   |
| <b>Total Expenditure</b>  | <b>1,655,807</b>                                    | <b>1,784,039</b>          | <b>1,903,029</b>          |
| <b>Surplus/(Deficit)</b>  | <b>31,665</b>                                       | <b>33,644</b>             | <b>42,504</b>             |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) | 72,796  | 74,131                    | 90,650                    |
| <b>Surplus/(Deficit) for the year</b>   | <b>104,461</b>                                      | <b>107,775</b>            | <b>133,154</b>            |

### 3.1 Financial performance (revenue and expenditure) Version 2.8

| Description<br>R thousand  | Ref  | 2013/14          | 2014/15          | 2015/16          | Current Year 2016/17 |                  |                    |                   |
|--|------|------------------|------------------|------------------|----------------------|------------------|--------------------|-------------------|
|  |      | Audited Outcome  | Audited Outcome  | Audited Outcome  | Original Budget      | Adjusted Budget  | Full Year Forecast | Pre-audit outcome |
| <b>Revenue By Source</b>   |      |                  |                  |                  |                      |                  |                    |                   |
| Property rates   | 2    | 175,658          | 184,501          | 190,532          | 247,933              | 247,933          | 256,896            | 171,264           |
| Service charges - electricity revenue                                | 2    | 437,089          | 389,051          | 445,336          | 551,005              | 551,005          | 452,443            | 301,628           |
| Service charges - water revenue                                      | 2    | 281,811          | 260,933          | 318,194          | 361,055              | 361,055          | 308,123            | 205,415           |
| Service charges - sanitation revenue                                 | 2    | 65,379           | 85,719           | 87,496           | 101,071              | 101,071          | 93,157             | 62,105            |
| Service charges - refuse revenue                                     | 2    | 83,918           | 94,974           | 99,198           | 108,365              | 108,365          | 108,296            | 72,197            |
| Rental of facilities and equipment                                   |      | 2,504            | 3,009            | 3,689            | 4,854                | 4,854            | 3,991              | 2,660             |
| Interest earned - external investments                               |      | 36,937           | 27,125           | 56,597           | 44,100               | 44,100           | 49,071             | 32,714            |
| Dividends received   |      | 57               | 42               | 52               | 52                   | 52               | 19                 | 13                |
| Fines  |      | 22,738           | 28,208           | 23,370           | 29,199               | 28,199           | 6,837              | 4,558             |
| Agency services  |      | 23,751           | 22,715           | 22,430           | 33,854               | 33,854           | 32,079             | 33,587            |
| Transfers recognised - operational                                   |      | 220,634          | 225,713          | 230,956          | 217,623              | 230,387          | 225,351            | 169,513           |
| Other revenue  | 2    | 98,942           | 86,621           | 43,000           | 22,900               | 22,900           | 46,450             | 30,963            |
| Gains on disposal of PPE   |      | (43,551)         | (13,469)         | (5,067)          | 10,000               | 10,000           | 7,679              | 5,119             |
| <b>Total Revenue (excluding capital transfers and contributions)</b> |      | <b>1,405,866</b> | <b>1,395,143</b> | <b>1,515,784</b> | <b>1,732,012</b>     | <b>1,743,776</b> | <b>1,590,392</b>   | <b>1,091,737</b>  |
| <b>Expenditure By Type</b>   | -    |                  |                  |                  |                      |                  |                    |                   |
| Employee related costs   | 2    | 342,659          | 382,907          | 406,248          | 448,356              | 456,739          | 433,759            | 289,173           |
| Remuneration of councillors  |      | 16,293           | 17,352           | 18,413           | 21,038               | 21,038           | 19,012             | 12,675            |
| Debt impairment  | 3    | 142,149          | 159,816          | 140,890          | 137,081              | 137,081          | 124,236            | 82,324            |
| Depreciation & asset impairment                                      | 2    | 188,841          | 152,986          | 163,619          | 162,165              | 162,165          | 142,622            | 95,081            |
| Finance charges  |      | 20,941           | 38,322           | 40,426           | 3,058                | 5,358            | 34,527             | 23,018            |
| Bulk purchases   | 2    | 556,919          | 620,631          | 725,551          | 638,908              | 646,547          | 640,000            | 539,024           |
| Contracted services  |      | 73,947           | 70,266           | 78,175           | 58,205               | 81,746           | 75,669             | 50,446            |
| Transfers and grants   |      | 77,664           | 53,220           | 25,376           | 51,621               | 27,826           | 11,647             | 7,765             |
| Other expenditure  | 4, 5 | 238,886          | 175,883          | 196,097          | 187,847              | 195,825          | 169,871            | 118,511           |
| <b>Total Expenditure</b>   |      | <b>1,658,297</b> | <b>1,671,382</b> | <b>1,794,795</b> | <b>1,708,279</b>     | <b>1,734,326</b> | <b>1,651,343</b>   | <b>1,218,017</b>  |
| <b>Surplus/(Deficit)</b>   |      | <b>(252,431)</b> | <b>(276,239)</b> | <b>(279,011)</b> | <b>23,733</b>        | <b>9,450</b>     | <b>(60,952)</b>    | <b>(126,280)</b>  |
| Transfers recognised - capital                                       |      | 116,487          | 74,317           | 79,803           | 60,161               | 62,261           | 63,521             | 51,573            |
| Contributions recognised - capital                                   | 6    | 63,143           | 77,666           | 11,743           | 17,000               | 0                | -                  | -                 |
| Contributed assets   |      | 12,566           | 1,238            | 4,132            | -                    | -                | -                  | -                 |
| <b>Surplus/(Deficit) after capital transfers &amp; contributions</b> |      | <b>(60,234)</b>  | <b>(123,019)</b> | <b>(183,332)</b> | <b>100,894</b>       | <b>71,711</b>    | <b>2,569</b>       | <b>(74,707)</b>   |
| <b>Surplus/(Deficit) after taxation</b>                              |      | <b>(60,234)</b>  | <b>(123,019)</b> | <b>(183,332)</b> | <b>100,894</b>       | <b>71,711</b>    | <b>2,569</b>       | <b>(74,707)</b>   |
| <b>Surplus/(Deficit) attributable to municipality</b>                |      | <b>(60,234)</b>  | <b>(123,019)</b> | <b>(183,332)</b> | <b>100,894</b>       | <b>71,711</b>    | <b>2,569</b>       | <b>(74,707)</b>   |
| <b>Surplus/(Deficit) for the year</b>                                |      | <b>(60,234)</b>  | <b>(123,019)</b> | <b>(183,332)</b> | <b>100,894</b>       | <b>71,711</b>    | <b>2,569</b>       | <b>(74,707)</b>   |

### 3.2 Revenue

#### Revenue 2017-2018



## Comments on Operating Revenue

### The property rates

The property rates amounts to R 263 million for the 2017/2018 financial year. This revenue stream has been increased by 6%. An amount of R 29 million is budgeted for the income forgone in terms of rebates and discounts that are offered by the municipality for the indigents, pensioners and the areas where the municipality is not providing services. This revenue stream contributes 16% of the total revenue.

### Service charges

Service charges include electricity, refuse, sewer and water. The service charges for 2017/2018 amount to R 1,004 billion, 2018/2019 R 1,068 billion and 2019/2020 amount to R 1,136 billion. The R 1,004 billion is made up of the following, water R 341million, Refuse R 113 million, Sewerage R 100 million and electricity R449 million. The service charges contribute 60% of the operating revenue.

### Rental income

The rental income amounts to R5.1 million. The stream contributes 0.2% of the total revenue.

### Fines

The revenue estimates for the fines have been increased from R 29.2 million to R 30 million.

### Agency fees

The estimates for this revenue stream has been increased from R33.5 million to R36 million, this is based on current performance in 2016/17. This revenue stream needs to be properly monitored. It contributes 2% to the total operating revenue streams.

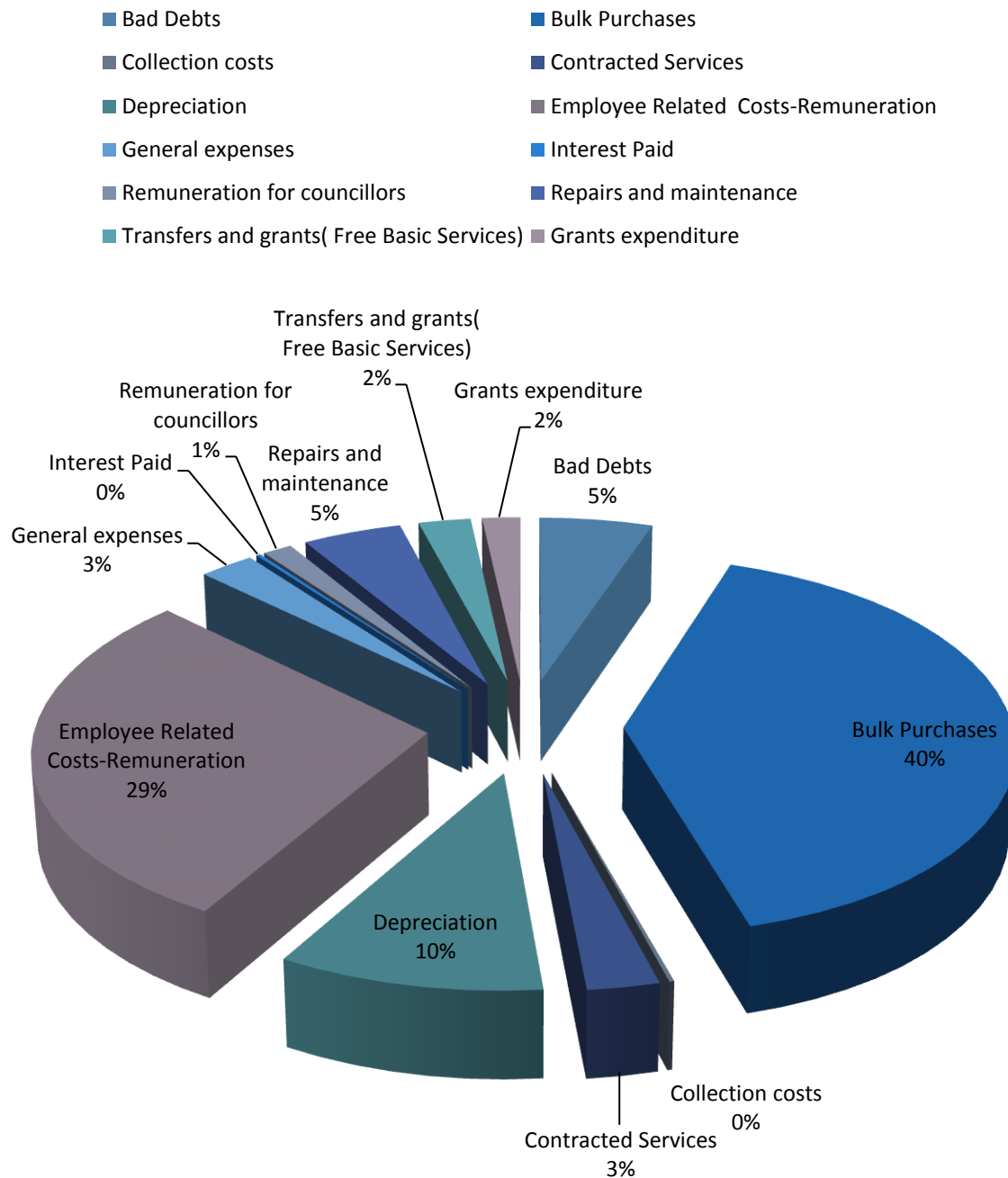
### Grants and Subsidies – operating

The grants subsidies refer to the Division of Revenue Act allocations in the 2017/18 financial year, the operational grants allocations are as follows:

| DESCRIPTION                      | 2017/18            | 2018/19            | 2019/20            |
|----------------------------------|--------------------|--------------------|--------------------|
| Equitable share                  | 218,181,000        | 258,160,000        | 286,526,000        |
| Finance Management Grant         | 1,700,000          | 1,955,000          | 1,955,000          |
| Extended Public Works Program    | 4,244,000          | -                  | -                  |
| Infrastructure Development Grant | 23,000,000         | 25,039,000         | 26,441,000         |
| <b>TOTAL</b>                     | <b>247,125,000</b> | <b>285,154,000</b> | <b>314,922,000</b> |

### 3.3 Operating Expenditure

#### EXPENDITURE 2017-2018



## **Comments on Operating Expenditure:**

### **Employee related costs**

The employee related costs and remuneration of councillors indicate a percentage of 29% of the total operating budget. The average salary increase 7.4%. The overtime will have to be controlled and filling of vacant positions will have to be fast tracked.

### **General expenditure**

In a bid to cut cost and ensure the funding of the overall budget, general expenditure budget was not changed from to the current adjusted budget. The transport cost still needs to be controlled. General expenditure takes 3% of the total operating expenditure.

### **Contracted services**

In a bid to cut cost and ensure the funding of the overall budget, contracted services budget have increased from to the current adjusted budget. Contracted services constitute 3% of total operating expenditure.

The contract management will have to be improved for the contracted services. The outsourcing of work will need to be controlled to ensure skill transfer.

### **Bulk purchases**

The bulk purchases for electricity and water amounts to R 670 million, which contributes 40% of the operating budget. The Eskom will increase the bulk purchases to the municipality by 1.88% and Rand Water will be 10.2%.

### **Repairs and maintenance**

The repairs and maintenance plan for the departments must be aligned with their budget and monthly reports should indicate how the departments are progressing. The repairs and maintenance contributes 5% of the operating budget. The revenue generating assets should be to an adequate level ensuring that quality services are sustained.

### **Transfers and grants**

Transfers and grants (Indigent support) constitutes 2% of total operating budget. The budget was based on current year forecast increased with inflation.

### **Depreciation**

Depreciation constitutes 10% of the budget. The budget increase was informed by historical trends as well as budgeted and forecasted additions.

### 3.4 Capital Budget

#### Capital Expenditure by vote, functional classification and funding. mSCOA version 6.1

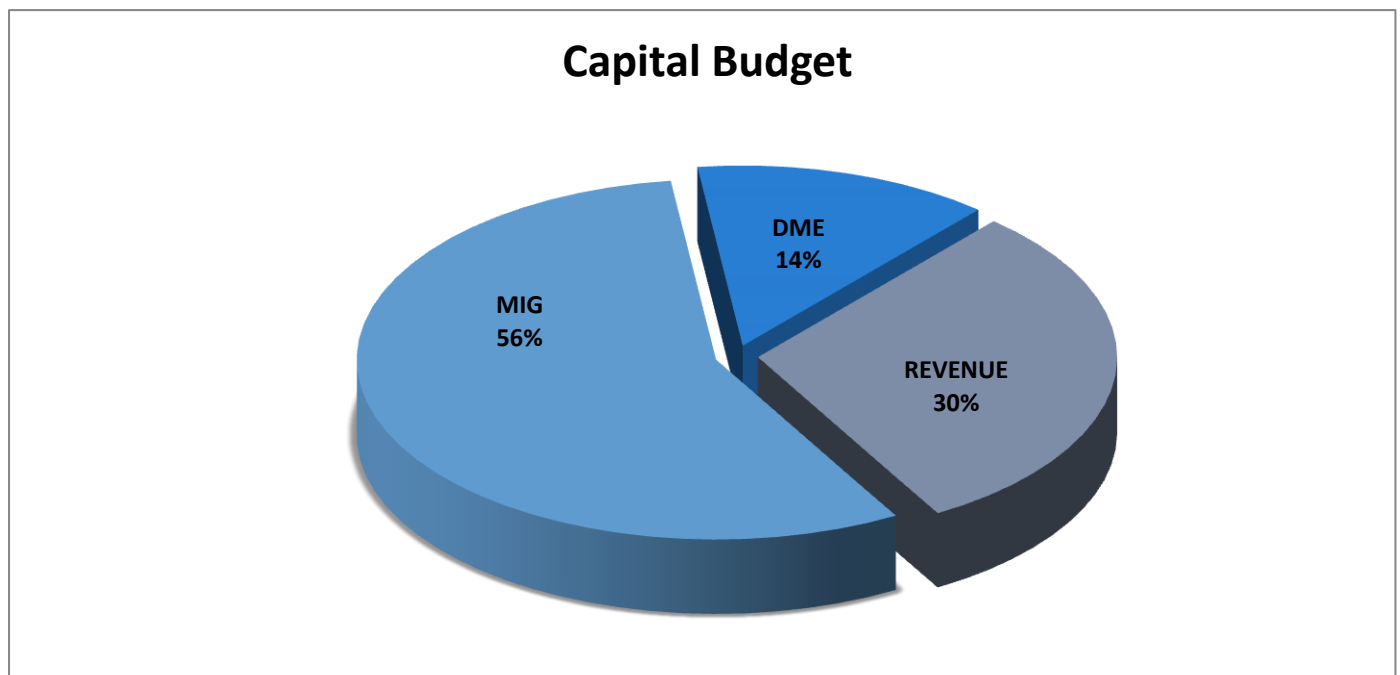
| Vote Description<br>R thousand                    | Ref | 2017/18 Medium Term Revenue & Expenditure Framework |                           |                           |
|---|-----|---|---------------------------|---------------------------|
|   |     | Budget Year<br>2017/18                              | Budget Year +1<br>2018/19 | Budget Year +2<br>2019/20 |
| <b>Single-year expenditure to be appropriated</b> | 2   |   |                           |                           |
| Vote 1 - Community and Social Services            |     | –   | 700                       | –                         |
| Vote 2 - Energy Sources                           |     | 44,000  | 32,000                    | 25,000                    |
| Vote 5 - Finance and Administration               |     | 1,600   | 1,000                     | 1,000                     |
| Vote 8 - Planning and Development                 |     | 58,796  | 62,131                    | 65,650                    |
| Vote 11 - Sport and Recreation                    |     | –   | 250                       | –                         |
| <b>Capital single-year expenditure sub-total</b>  |     | <b>104,396</b>                                      | <b>96,081</b>             | <b>91,650</b>             |
| <b>Total Capital Expenditure - Vote</b>           |     | <b>104,396</b>                                      | <b>96,081</b>             | <b>91,650</b>             |
| <b>Capital Expenditure - Functional</b>           |     |   |                           |                           |
| <b>Governance and administration</b>              |     | <b>1,600</b>  | <b>1,000</b>              | <b>1,000</b>              |
| Executive and council                             |     | –   | –                         | –                         |
| Finance and administration                        |     | 1,600   | 1,000                     | 1,000                     |
| Internal audit                                    |     | –   | –                         | –                         |
| <b>Community and public safety</b>                |     | <b>–</b>  | <b>950</b>                | <b>–</b>                  |
| Community and social services                     |     | –   | 700                       | –                         |
| Sport and recreation                              |     | –   | 250                       | –                         |
| <b>Economic and environmental services</b>        |     | <b>58,796</b>                                       | <b>62,131</b>             | <b>65,650</b>             |
| Planning and development                          |     | 58,796  | 62,131                    | 65,650                    |
| Road transport                                    |     | –   | –                         | –                         |
| Environmental protection                          |     | –   | –                         | –                         |
| <b>Trading services</b>                           |     | <b>44,000</b>                                       | <b>32,000</b>             | <b>25,000</b>             |
| Energy sources                                    |     | 44,000  | 32,000                    | 25,000                    |
| <b>Total Capital Expenditure - Functional</b>     | 3   | <b>104,396</b>                                      | <b>96,081</b>             | <b>91,650</b>             |
| <b>Funded by:</b>                                 |     |   |                           |                           |
| National Government                               |     | 72,796  | 74,131                    | 90,650                    |
| <b>Transfers recognised - capital</b>             | 4   | <b>72,796</b>                                       | <b>74,131</b>             | <b>90,650</b>             |
| <b>Public contributions &amp; donations</b>       | 5   |   |                           |                           |
| <b>Borrowing</b>                                  | 6   |   |                           |                           |
| <b>Internally generated funds</b>                 |     | 31,600  | 21,950                    | 1,000                     |
| <b>Total Capital Funding</b>                      | 7   | <b>104,396</b>                                      | <b>96,081</b>             | <b>91,650</b>             |

## Capital Expenditure by vote, standard classification and funding. Version 2.8

| Vote Description                                  | Ref | 2013/14         | 2014/15         | 2015/16         | Current Year 2016/17 |                 |                    |                   |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|
| R thousand  | 1   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome |
| <b>Single-year expenditure to be appropriated</b> | 2   |                 |                 |                 |                      |                 |                    |                   |
| Vote 1 - Executive & Council                      |     | 189             | 107             | –               | –                    | –               | –                  | –                 |
| Vote 2 - Corporate Services                       |     | 310             | 980             | –               | –                    | –               | –                  | –                 |
| Vote 3 - Planning & Development                   |     | 28,633          | 394             | –               | –                    | –               | –                  | –                 |
| Vote 4 - Community Services                       |     | 21,423          | 30,916          | –               | –                    | –               | –                  | –                 |
| Vote 5 - Financial Services                       |     | 301             | 1,648           | –               | –                    | –               | –                  | –                 |
| Vote 6 - Technical services                       |     | 87,615          | 121,245         | –               | –                    | –               | –                  | –                 |
| <b>Capital single-year expenditure sub-total</b>  |     | <b>138,470</b>  | <b>155,289</b>  | –               | –                    | –               | –                  | –                 |
| <b>Total Capital Expenditure - Vote</b>           |     | <b>138,470</b>  | <b>155,289</b>  | –               | –                    | –               | –                  | –                 |
| <b>Capital Expenditure - Standard</b>             |     |                 |                 |                 |                      |                 |                    |                   |
| <b>Governance and administration</b>              |     | <b>799</b>      | <b>2,735</b>    | <b>3,975</b>    | <b>9,941</b>         | <b>11,590</b>   | <b>3,622</b>       | <b>2,414</b>      |
| Executive and council                             |     | 189             | 107             | 490             | –                    | –               | –                  | –                 |
| Budget and treasury office                        |     | 301             | 1,648           | 2,030           | 5,021                | 10,039          | 599                | 399               |
| Corporate services                                |     | 310             | 980             | 1,455           | 4,920                | 1,552           | 3,023              | 2,015             |
| <b>Community and public safety</b>                |     | <b>49,337</b>   | <b>21,489</b>   | <b>5,179</b>    | <b>21</b>            | <b>21</b>       | <b>2,715</b>       | <b>1,810</b>      |
| Community and social services                     |     | 13,972          | 5,806           | 366             | 21                   | 21              | 11                 | 7                 |
| Sport and recreation                              |     | 7,435           | 15,683          | 4,814           | –                    | –               | 2,704              | 1,803             |
| Housing   |     | 27,931          | –               | –               | –                    | –               | –                  | –                 |
| <b>Economic and environmental services</b>        |     | <b>40,957</b>   | <b>394</b>      | <b>39,599</b>   | <b>3,771</b>         | <b>2,671</b>    | <b>3</b>           | <b>2</b>          |
| Planning and development                          |     | 702             | 394             | 2,988           | –                    | –               | –                  | –                 |
| Road transport                                    |     | 40,255          | –               | 36,611          | 3,600                | 2,650           | 3                  | 2                 |
| Environmental protection                          |     | –               | –               | –               | 171                  | 21              | –                  | –                 |
| <b>Trading services</b>                           |     | <b>47,376</b>   | <b>130,671</b>  | <b>72,989</b>   | <b>87,161</b>        | <b>73,113</b>   | <b>51,389</b>      | <b>34,260</b>     |
| Electricity                                       |     | 4,565           | 6,945           | 13,500          | 15,000               | 15,000          | 4,439              | 2,959             |
| Water   |     | 3,516           | 72,894          | 5,461           | –                    | –               | 6,288              | 4,192             |
| Waste water management                            |     | 39,279          | 41,405          | 54,029          | 72,161               | 58,113          | 40,663             | 27,109            |
| Waste management                                  |     | 16              | 9,427           | –               | –                    | –               | –                  | –                 |
| <b>Total Capital Expenditure - Standard</b>       | 3   | <b>138,470</b>  | <b>155,289</b>  | <b>121,743</b>  | <b>100,894</b>       | <b>87,395</b>   | <b>57,729</b>      | <b>38,486</b>     |
| <b>Funded by:</b>                                 |     |                 |                 |                 |                      |                 |                    |                   |
| National Government                               |     | 107,340         | 72,817          | 59,424          | 60,161               | 63,113          | 52,903             | 35,269            |
| Provincial Government                             |     |                 | 47,513          | 3,307           | 17,000               | –               | –                  | –                 |
| District Municipality                             |     | 5,628           | 1,238           | –               | –                    | –               | –                  | –                 |
| Other transfers and grants                        |     | 2,030           | –               | 8,543           | 10,000               | 10,000          | 1,182              | 788               |
| <b>Transfers recognised - capital</b>             | 4   | <b>114,998</b>  | <b>121,568</b>  | <b>71,274</b>   | <b>87,161</b>        | <b>73,113</b>   | <b>54,085</b>      | <b>36,057</b>     |
| <b>Public contributions &amp; donations</b>       | 5   |                 | 1,500           |                 |                      | –               |                    |                   |
| <b>Borrowing</b>                                  | 6   |                 |                 |                 |                      | –               |                    |                   |
| <b>Internally generated funds</b>                 |     | 23,471          | 32,221          | 50,468          | 13,733               | 14,282          | 3,644              | 2,429             |
| <b>Total Capital Funding</b>                      | 7   | <b>138,470</b>  | <b>155,289</b>  | <b>121,743</b>  | <b>100,894</b>       | <b>87,395</b>   | <b>57,729</b>      | <b>38,486</b>     |

## Capital Expenditure per source

| Description                    | 2016/17<br>Approved<br>Budget | Total<br>Adjusted<br>Budget | Actual Year<br>to Date | 2017/18<br>Budget  | 2018/19<br>Budget | 2019/20<br>Budget |
|--------------------------------|-------------------------------|-----------------------------|------------------------|--------------------|-------------------|-------------------|
| Department of Human settlement | 17,000,000                    | -                           | -                      | -                  | -                 | -                 |
| DME                            | 5,000,000                     | 5,000,000                   | 3,795,867              | 14,000,000         | 12,000,000        | 25,000,000        |
| MIG                            | 55,161,000                    | 56,161,000                  | 26,407,756             | 58,796,000         | 62,131,000        | 65,650,000        |
| Revenue                        | 11,733,000                    | 14,582,443                  | 2,302,653              | 31,600,000         | 21,950,000        | 1,000,000         |
| <b>Grand Total</b>             | <b>88,894,000</b>             | <b>75,743,443</b>           | <b>32,506,276</b>      | <b>104,396,000</b> | <b>96,081,000</b> | <b>91,650,000</b> |



The capital budget amount to R104 million and a detailed MIG capital investment program is attached. The capital program is funded mainly through Municipal Infrastructure Grant.

### GOVAN MBEKI MUNICIPALITY: PROPOSED MIG PROJECTS (MTEF)

| Project Description  | Proposed Budget 2017/2018 |
|--|---------------------------|
| Refurbishment of Leandra WWTW                                | 10 000 000                |
| Construction of Sanitation Infrastructure in Kinross Ext 25  | 10 000 000                |
| Eradication of gravel roads in Emzinoni                      | 10 000 000                |
| Eradication of gravel roads in Embalenhle                    | 8 796 000                 |
| Upgrading of sewer reticulation network in Embalenhle Ext 18 | 5 000 000                 |
| Emzinoni Bulk Water Supply                                   | 15 000 000                |
| <b>Total</b>   | <b>58 796 000</b>         |

## SOCIAL LABOUR PROJECTS

| SLP 2017-2022   | Financial Year | Status   | Area                    | Source            | Amount      |
|---|----------------|----------|-------------------------|-------------------|-------------|
| Phase 2 construction of storm water channel in Leandra.       | 2017           | Approved | 3 -Ext. 10-12           | Sasol             | R 1 200 000 |
| Construction of a multi-purpose centre                        | 2017           | Approved | 10 –Charl- Cilliers     | Sasol             | R 4 000 000 |
| Sakhisizwe bridge   | 2017           | Approved | 17- Sakhisizwe Farm     | Sasol             | R 4 000 000 |
| Houses EXT.13 Emzinoni  | 2017           | Approved | 26- Ext 13              | Sudor Coal        | R 4 400 000 |
| Construction of a Community Hall Emzinoni                     | 2017           | Approved | Ward 26 Ext23           | Shanduka Coal     | R1 500 000  |
| Boreholes   | 2017           | Agreed   | 1Springboklaagete farms | Shanduka Coal     | R 4 032 579 |
| Upgrade Thistle Groove Dam and recreation facility around it. | 2018-2019      | Agreed   | 16- Ext 15              | Sasol             | R 4 500 000 |
| Upgrade Library at Kinross                                    | 2019           | Agreed   | 16- Ext 00              | Sasol             | R3 000 000  |
| Storm water channel and roads /electricity upgrade embalenhle | 2018           | Agreed   | 31-Ext 17               | Anglo Coal        | R11 000 000 |
| Upgrade Bethal Dam  | 2017           | Agreed   | 28- Ext 5               | Anglo Coal        | R 3 500 000 |
| Leandra Sewer Network   | 2019           | Agreed   | 1 -Ext 1                | Anglo Coal        | R 5 000 000 |
| Maths and Science project                                     | 2016-2019      | Agreed   | All wards               | Anglo Coal        | R 5 000 000 |
| Paving internal roads Bethal Cemetery                         | 2016-2019      | Agreed   | 26- Ext. 24             | Overlook Colliery | R 2 700 000 |
| Emzinoni pump-station refurbishment.                          | 2016-2019      | Agreed   | 27- Ext.2,3,9           | Sasol             | R 6 000 000 |

## 4. CONSULTATION PROCESS

Section 22 of the Municipal Finance Management Act requires that after tabling of the Final Budget, the municipality must make the budget available to the public and conduct community participation.

The consultation process took place during from the 5<sup>th</sup> to the 23<sup>rd</sup> April as planned, the inputs received from the community are included in the draft IDP.

## 5. BUDGET RELATED POLICIES AND OVERVIEW OF TARIFF ADJUSTMENTS

The municipality's budgeting process is guided and governed by the relevant legislation and related policies.

The purpose of the budget related policies is to govern and guide the budget process and inform the projections of the medium term.

Listed below with a brief description are the municipalities budget related policies. The budget and accounting policies were reviewed during the year.

The accounting policy is reviewed on an on-going basis to incorporate changes required by the relevant Accounting Standards, apart from the changes to these policies as part of the budget process.

- Budget related policies are attached for review as follows:

### **5.1 Virement Policy (Annexure D)**

The Virement policy establishes the framework for managers to manage their respective budgets within limitations, and also to ensure good budgeting practice and effective financial management. The Virement policy has been amended to improve budgetary controls.

### **5.2 Accounting policy (Annexure E)**

The accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with Generally Recognized Accounting standards and other guiding principles such as International Financial Reporting.

### **5.3 Supply Chain Management Policy (Annexure F)**

The supply chain management policy was adopted and amendments are as result of council resolution.

### **5.4 Credit control and Debt collection policy (Annexure G)**

The council adopted a policy a few amendments have been made to give clear indication in terms indigents, s 118 on the issuing of rates clearance and the outstanding debt.

### **5.5 Investment policy (Annexure H)**

The intention of the investment policy is to ensure investments are made in an efficient and effective manner which generates the best returns for the municipality while considering preservation and safety of the principal and appropriate liquidity.

### **5.6 Property Rates policy (Annexure I)**

Section 3(1) of the Local Government Property Rates Act, 2004 (Act 6 of 2004) and Section 62 (1) (f) of the Municipal Finance Management Act, determines that a municipality must adopt and implement a rates policy on the levying.

### **5.7 Tariff policy (Annexure J)**

The tariff policy covers levying of tariffs, fees and charges for municipal services. The tariff policy details electricity, water, sewer, refuse removal and miscellaneous tariffs.

### **5.8 Fixed Asset Management Policy (Annexure K)**

The asset policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilization, control maintenance and disposal of assets. The policy guides Directorates in their responsibility and duties for control of their assets.

### **5.9 Short Term Risk and Liabilities Policy (Annexure L)**

### **5.10 Funding and Reserves Policy (Annexure M)**

**5.11 Budget Policy (Annexure N)**

**5.12 Borrowing Policy (Annexure O)**

**5.13 Blacklisting Policy (Annexure P)**

**5.14 Indigent Management Policy (Annexure Q)**

**5.15 Travelling and Subsistence Policy (Annexure R)**

**5.16 Provision for Doubtful Debt and Debt Write-Off Policy (Annexure S)**

**5.17 Unclaimed Deposit Policy (Annexure T)**

**5.18 Retention Policy (Annexure U)**

**6. OVERVIEW OF BUDGET ASSUMPTIONS**

The budget assumptions are determined before the budget process, guided by the economic outlook, movements in terms of the markets and by the national treasury guidelines.

The assumptions are devised in such a way that they support the short and long term finances and strategy of the municipality.

**6.1 Key Financial indicators**

The growth parameters set by National treasury are set between 3 and 6 percent which are also target range for the inflation rate. All steps have been taken to be in line with these National Treasury guidelines however the following factors affect the municipal operations and the budget accordingly:

- Anticipated high fuel prices
- Higher salaries
- Increase by Eskom and Rand water
- Job creation and protecting the poor

The 2017/2018 has been developed guided by the following inflation forecast:

| <b>Fiscal Year</b> | <b>2017<br/>Actual</b> | <b>2018<br/>Forecast</b> | <b>2019<br/>Forecast</b> | <b>2020<br/>Forecast</b> |
|--------------------|------------------------|--------------------------|--------------------------|--------------------------|
| Real GDP Growth    | 0.5%                   | 1.3%                     | 2.0%                     | 2.2%                     |
| CPI Inflation      | 6.4%                   | 6.4%                     | 5.7%                     | 5.6%                     |

## 6.2 Credit Rating

The municipality has not had a credit rating and with National Treasury support, the municipality will have to undertake it.

## 6.3 Borrowing and Investment of funds

The MFMA permits the borrowing for long term if it is for the acquisition of capital goods such plant and equipment and infrastructure. The municipality will consider the unsecured loan in the medium term, as this is backed up by the acknowledgement from the lender, that the municipality is showing sound financial management and an ability to meet short term obligations.

The municipality has a total amount of R 6 million external loans.

The investments amount to R24 million, R9.4 million of these investments are securities for the DBSA loans and due to negative cash flow the municipality is unable to build more reserves.

## 6.4 Rates, tariffs, charges and timing of revenue collection

Accounts for rates, refuse, electricity, water and sanitation are issued on a monthly basis and are due and payable before the 7<sup>th</sup> of the month. Recovery procedures for non-payment may be commenced within 7 days of payment default. The electricity supply is cut and water supply is restricted when a client defaults. The municipality is committed in ensuring that collection levels are improved and that credit control will be enforced on those who can afford and not honouring their municipal accounts.

## 6.5 Collection rates for each revenue source

The collection rate for all the services is expected to be 87% average throughout; this is due to credit control actions that are taken against the defaulters. Where ESKOM is a service delivery agent, consumers who are not paying will be restricted water.

## 6.6 Price movements on specifics

The cost of bulk purchases amounts to R670 million for both electricity and water. The projections are informed by the increases from the Rand water and Eskom. Eskom has advised there will be an increase across the board of 1.88% on the bulk purchases of electricity.

The increase on both electricity and water tariff has been pegged at 1.88% and 10.2% respectively per NERSA and Rand Water.

## 6.7 Average salary increases

Main Collective Agreement signed 2015 was taken into account in budgeting for employee related costs it recommends an increase of average CPI + 1% applicable for 2015/16 to 2017/18

## **6.8 Changing Demand characteristics**

The demand for services is increasing yearly as the municipality is expected to deliver services to the indigent and pressure to reduce poverty.

## **6.9 Ability to the municipality to spend and deliver on programs**

The 2017/2018 operating budget will be spent 100% by year end looking at the projected actual by year end. The challenges are still there in terms of maintaining the infrastructure and managing the breakaways of vehicles especially revenue generating.

# **7. ALIGNMENT OF BUDGET TO THE INTEGRATED DEVELOPMENT PLAN**

## **7.1 IDP Review and stakeholder participation**

The IDP has been prepared for the medium term to 2017/18. In the current financial year the IDP has undergone the review as required by the Municipal Systems Act and MFMA. Community needs and inputs were sought and the stake holders were consulted.

The IDP takes cognizance of the National, provincial and district priorities. The key focus and IDP priorities are:

- To provide , improve and sustain infrastructure
- To promote socio economic development in rural and urban areas
- To enable and speed up institutional transformation
- To strengthen democracy and good governance
- To improve and sustain financial management

## **7.2 IDP link to the budget**

In compliance with Systems Act of 2000 and the Municipal Finance Management Act the budget is informed and aligned to the IDP priorities.

The budget will be fully aligned to the IDP.

# **8. BUDGET SCHEDULES**

Final Budget schedules in terms of National Treasury requirements are attached as an “**Annexure B**”.

## 9. BUDGET RECOMMENDATIONS

1. That the report on the Final Medium Term Revenue and Expenditure Framework for 2017/2018 and two outer years **BE ACKNOWLEDGED**.
2. That the budget comprising of operating Income budget of **R 1,687,472,256** ,operating expenditure budget of **R 1,655,806,978** and capital budget of **R 104,396,000** as set out in the following tables **BE CONSIDERED** for the adoption to ensure compliance with section 16 (2) of the Municipal Finance Management Act (No 56 of 2003): The budget table are submitted in duplicate, the old version and new version 6.1 which is MSCOA compliant.

- 2.1 *Table A1: Budget Summary*
- 2.2 *Table A2: Budget Financial Performance*
- 2.3 *Table A3: Budgeted Financial Performance (Municipal Votes)*
- 2.4 *Table A4: Budgeted Financial Performance (Revenue and Expenditure)*
- 2.5 *Table A5: Budgeted Capital Expenditure by Vote*
- 2.6 *Table A6: Budgeted Financial Position*
- 2.7 *Table A7: Budgeted Cash Flows*
- 2.8 *Table A8: Cash Backed Reserves / Accumulated Surplus Reconciliation*
- 2.9 *Table A9: Asset Management*
- 2.10 *Table A10: Basic Service Delivery Measurement*

3. That the budget related policies of Council mentioned in the report **BE REVIEWED**.

4. That proposed tariff increases **BE ADOPTED** as follows:

### 4.1 ASSESSMENT RATES

All property taxes as per the 2016/2017 tariff book increased by 6.4%.

### 4.2 SEWERAGE

All sewerage charges as per the 2016/2017 tariff book increased by 10.2%.

### 4.3 REFUSE

All refuse charges as per the 2016/2017 tariff book increased by 6.4%.

### 4.4 WATER

All basic water charges as per the 2016/2017 tariff book increased by 10.2%

### 4.5 ELECTRICITY

All basic electricity charges Increase with 1.88 % in line with NERSA

### 4.6 DEPOSITS

Increase with 6.4%

### 4.7 COMMUNITY SERVICES TARRIFS

*Tariff booklet has been attached as Appendix A*

#### **4.8 MISCELLANEOUS TARIFFS**

- As per the 2016/17 tariff book increased by 6.4%.
- These are tariffs that are used on a needs basis.
- All tariffs exclude VAT except in the case of assessment rates that are zero-rate.

#### **4.9 INTEREST / CAPITALIZED ARREARS**

- No interest will be levied on those arrears for which the consumer made formal arrangements.
- Interest will only be levied on those arrears for which no formal arrangement exist and/or arrear as a result of not complying with the said arrangements.
- Interest rates will be levied at market related rates.